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WATER/FLC/JPT/MXK/JL1/jlj

AGENDA ITEM #4828

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4555
August 25, 2005**

R E S O L U T I O N

**(RES. W-4555), NACIMIENTO WATER COMPANY (Nacimiento).
ORDER AUTHORIZING AN INCREASE IN RATES PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$182,333 OR 68.10% IN TEST
YEAR 2003 INCLUDING CONSUMER PRICE INDEX (CPI)
INCREASES OF \$8,057 OR 1.9% FOR 2004, AND \$14,261 OR 3.3% FOR
2005.**

SUMMARY

By Draft Advice Letter, filed on March 31, 2003, Nacimiento seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For test year 2003, this resolution grants an increase in gross annual revenues of \$182,333 or 68.10%, which will provide a return on margin of 24%. This revenue increase includes CPI increases of \$8,057 or 1.9% for 2004, and \$14,261 or 3.3% for 2005.

BACKGROUND

Nacimiento on March 31, 2003 filed a draft advice letter requesting authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$201,882 or 76.93% for test year 2003. NWC subsequently filed a revised draft advice letter on October 29, 2003 requesting an increase of water rates by \$210,843 or 80.34% for test year 2003. Nacimiento's requested increase is to recover increased operating expenses and to provide a rate of margin of 15% using the operating ratio method for test year 2003. Nacimiento's estimated gross revenues of \$262,431 at present rates would increase to \$473,275 at Nacimiento's proposed rates.

The present rates became effective September 26, 2000 per Resolution (Res.) W-4219 which authorized an increase of \$58,128 or 32.79%.

Nacimientto operates a community water system that supplies domestic water to over 550 metered customers in its service territory 25 miles northwest of Paso Robles, San Luis Obispo County. Nacimientto receives all of its raw water supply from three wells, ranging in depth from 60 to 80 feet, all situated below the high-water level of Nacimientto Lake. Water produced from these wells must be purchased from the Monterey County Water Resources Agency. The treatment facility consists of disinfection, alum coagulation, settling in an upflow clarifier, filters, ozone towers, chemical treatment, backwash recovery basins, and drying beds. Nacimientto has two concrete reservoirs with metal roofs of 75,000 and 980,000 gallon capacities.

In early 2003, Nacimientto started the process of developing three new gallery wells in Nacimientto Lake. A new gallery Well No. 4, located near existing Well No. 1 became operational in 2004. The remaining two new wells have piping partially installed, but will not be completed until a drought season has occurred so that Nacimientto Lake will be at a low level making it possible for the wells to be completed.

DISCUSSION

The Water Division (Division) made an independent analysis of Nacimientto's Summary of Earnings and issued its report in September 2004. Appendix A shows Nacimientto's and the Division's estimates of the Summary of Earnings at present, requested, and authorized rates. Appendix A also shows differences in Nacimientto's and the Division's estimates in operating revenues, expenses, and rate base. Nacimientto was informed of the Division's differing views of revenues, expenses, and rate base and, through discussions and meetings, and after appeal to the Chief of the Water Branch parties had come to an agreement which resulted in the authorized rates.

The major differences in expenses were in employee labor, office salary, and management salary. The Division estimate for employee labor included an additional half-time operator instead of a full-time operator originally requested by Nacimientto. This additional operator will help relieve the overworked full-time operator currently employed by Nacimientto. For office salary, the Division estimate was based on actual office salary expense incurred by Nacimientto in 2003. The Division's initial estimate for management salary was based on what the manager was actually paid in 2002, and adjusted upward to allow for the time the manager spends on helping the full-time operator. Through discussions and meetings, the Division and Nacimientto agreed to give a higher management salary of \$50,000. After the Division and Nacimientto had come to an agreement on operating expenses, the Division adjusted the expenses by increasing them for CPI increases of 1.9% for 2004 and 3.3% for 2005.

During the public meeting, several customers felt it was unfair to have the same rates applied to existing and future new customers since the existing customers had previously paid hefty surcharges to fund the building of the new treatment plant. It was felt that new customers should bear some of the costs of building the new treatment plant by paying higher rates. Division felt that having a higher rate structure for new customers was not necessary since Nacimientos, in this rate case, is requesting to charge facilities fees on new customers when Nacimientos extends its service area. Division reviewed Nacimientos's analysis of need for facilities fees, and finds the request for facilities fees to be reasonable. In view of this, the Division recommends the facilities fees, Schedule F, shown in Appendix B. The facilities fees will be collected from each customer requesting a new or upgraded service connection and range from \$2,000 for service with a 5/8-inch meter to \$30,000 for service with a 3-inch meter. Funds collected should be placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.

Nacimientos requests to recover its operating expenses and to receive a rate of margin of 15% using the rate of margin method for test year 2003. Two methods are available for Division to utilize in the rate-making process: (1) rate of return and (2) rate of margin. Division calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the rate of margin method. Policy dictates that Division recommends the method that produces the higher revenues¹. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base".² If only the rate of return method was used, a utility with little or no rate base would earn little or no return. By having the opportunity to use rate of margin, these utilities are able to earn a reasonable profit to allow for operating contingencies.

In Resolution W-4524, dated March 17, 2005, the CPUC adopted a revised set of standard practices for determining the profit of Class C and D water utilities using the rate of return and rate of margin methods. Based on this revision, the Water Division determines a standard set of rates of return and rates of margin based on current data, to be used by Division in that year's Class C and D general rate cases.

¹ D.92-03-093. March 31, 1992.

² *ibid*, p.37.

In the rate of margin method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, total taxes, and a rate of margin multiplied by these expenses (except for income taxes). A rate of margin of 24%, the rate currently recommended by the Division's Audit and Compliance Branch for a Class C water utility, was used in this general rate case.

Division found that the rate of return calculation produced a revenue requirement of \$393,832 at the rate of return of 12.40%, the midpoint of the range 11.90% and 12.90% rate of return recommended by the Division's Audit and Compliance Branch for a Class C water utility. The rate of margin using a margin of 24% produced a revenue requirement of \$450,094. Per Decision 92-03-093, Division must recommend the higher of the two revenue requirements to the Commission. The Summary of Earnings in Appendix A shows authorized rates at a 24% rate of margin.

Nacimientos is a Class C water company. D. 92-03-093 allows Class C utilities to recover up to 65% of fixed costs in their readiness-to-serve-charge. At Nacimientos's request, the Division recommends Nacimientos be allowed to recover 65% of its fixed costs in its readiness to serve charges.

Nacimientos's current rate structure consists of three schedules: Schedules Nos. 1A, Annual Metered Service; 2A, Annual Flat Rate Service; and 4, Private Fire Protection Service. Nacimientos requests to eliminate Schedule No. 2A, since Nacimientos is no longer using it. The Division recommends a new Schedule F, Facilities Fees, in this general rate case. The new rate schedules can be found in Appendix B.

At the Division's recommended rates shown in Appendix B, the monthly bill for a typical residential customer with a 3/4-inch meter using 7,400 cubic feet of water will increase from \$34.21 to \$55.48 per month, or 62.2%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on January 10, 2004. After the notice of proposed rate increase was sent, Division received 5 complaint letters that objected to the proposed rate increase. Division also received one letter in support of Nacimientos.

A public meeting was held on Saturday, February 7, 2004, at the Oak Shores Clubhouse in Bradley, California. The date, time, and location of the meeting were specified in the notice of rate increase mailed to each customer on or before January 10, 2004. The meeting started at 10 A. M. with approximately 30 customers in attendance. The Division representatives explained Commission procedures and the purpose of the meeting. Nacimientos's representative made a presentation to explain the need for the rate increase. The rest of the meeting consisted of comments and questions by the customers. The comments and questions addressed concerns about increase in water rates, recent earthquake damage to the water plant, management activities, inability to obtain information, customer growth and resulting impact on rates, and fairness of single rate for existing and new customers. The customers present at the meeting requested a copy of the staff report. Staff reports were mailed to each of the customers on September 10, 2004.

There were also customer concerns about misuse of company labor and equipment by the company owner. Division informed the audience that an audit of Nacimientos's books and records will be conducted in conjunction with the general rate case, and the issue of the use of water employees and assets for non-water related purposes will be looked into. After conducting this audit, Division could not find evidence of misuse of company labor and equipment by the company owner.

COMPLIANCE

Nacimientos is currently providing water service according to the standards of General Order 103, has filed its annual reports regularly except for the 2004 annual report which was due on March 31, 2005, and there are no outstanding Commission orders requiring system improvements. Nacimientos should be required to file its 2004 annual report, and update the Preliminary Statement for water quality and Department of Health Services user fees memorandum accounts, within 60 days of the effective date of this resolution.

COMMENTS

Code §311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Code §311(g)(2) provides that this 30-day period may be waived or reduced upon stipulation of all parties in the proceeding.

DRAFT

Resolution W-4555

August 25, 2005

NWC/DRAFT AL/FLC/JPT/MXK/JL1/jlj

The 30-day comment period for the draft resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the date of mailing of this resolution to the parties.

Comments were received from _____ on _____. Replies were received from _____ on _____.

FINDINGS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified. The resulting rates are just and reasonable.
5. Nacimientos should be required to file its 2004 annual report within 60 days of the effective date of this order.
6. Nacimientos should be required to update the Preliminary Statement for water quality and Department of Health Services' user fees memorandum accounts.
7. Nacimientos should be required to eliminate Schedule No. 2A, Annual Flat Rate Service.
8. Division recommends that the Commission adopt Schedule F, Facilities Fees.
9. Facilities fees collected should be placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Nacimiento Water Company to file an advice letter incorporating the Summary of Earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedules Nos. 1A, Annual Metered Service; 2A, Annual Flat Rate Service; 4, Private Fire Protection Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Nacimiento Water Company is authorized to increase its annual revenues by \$182,333 or 68.10%, based on reasonable rates for 2003.
3. Nacimiento should be required to file its 2004 annual report within 60 days of the effective date of this order.
4. Nacimiento is authorized to update the Preliminary Statement for water quality and Department of Health Services' user fees memorandum accounts.
5. Nacimiento is authorized to eliminate Schedule No. 2A, Annual Flat Rate Service.
6. Nacimiento is authorized to add Schedule F, Facilities Fees to its tariff schedules.
7. Nacimiento is directed to have facilities fees collected placed in interest-bearing accounts and be used only to build or replace plant. As funds are used, the expenditures are required to be recorded as contributed plant.
8. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 25, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

Appendix A
Nacimiento Water Company

Summary of Earnings

<u>Item</u>	Utility Estimated		Test Year 2003 Division Estimated		Authorized
	<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	<u>Rates</u>
<u>Operating Revenue</u>					
General Metered Sales	\$ 235,056	\$ 406,723	\$ 240,386	\$ 415,648	\$ 390,971
Private Fire	\$ 27,375	\$ 66,552	\$ 27,375	\$ 66,576	\$ 59,123
Other Water Revenue	\$ -	\$ -			
Other Unmetered Revenue	\$ -	\$ -			
	\$ 262,431	\$ 473,275	\$ 267,761	\$ 482,224	\$ 450,094
<u>Operating Expenses</u>					
610 Purchased Water	\$ 11,093	\$ 11,093	\$ 11,150	\$ 11,150	
615 Purchased Power	\$ 24,192	\$ 24,192	\$ 21,878	\$ 21,878	
618 Other Volume Related Expenses	\$ 6,854	\$ 6,854	\$ 6,081	\$ 6,081	
630 Employee Labor	\$ 106,000	\$ 106,000	\$ 65,000	\$ 65,000	
640 Materials	\$ 22,289	\$ 22,289	\$ 10,475	\$ 10,475	
650 Contract Work	\$ 7,908	\$ 7,908	\$ 5,450	\$ 5,450	
660 Transportation Expenses	\$ 11,619	\$ 11,619	\$ 9,744	\$ 9,744	
664 Other Plant Maintenance	\$ 7,000	\$ 7,000	\$ 5,672	\$ 5,672	
670 Office Salaries	\$ 24,000	\$ 24,000	\$ 17,408	\$ 17,408	
671 Management Salaries	\$ 68,400	\$ 68,400	\$ 34,654	\$ 34,654	
674 Employee Benefits	\$ 36,900	\$ 36,900	\$ 23,409	\$ 23,409	
676 Uncollectibles Expense	\$ 730	\$ 730	\$ -	\$ -	
678 Office Services & Rentals	\$ 1,700	\$ 1,700	\$ 900	\$ 900	
681 Office Supplies & Expenses	\$ 4,693	\$ 4,693	\$ 4,693	\$ 4,693	
682 Professional Services	\$ 6,725	\$ 6,725	\$ 3,565	\$ 3,565	
684 Insurance	\$ 24,061	\$ 24,061	\$ 23,390	\$ 23,390	
688 Regulatory Commission Expense	\$ 1,356	\$ 1,356	\$ 1,356	\$ 1,356	
689 General Expenses	\$ 1,664	\$ 1,664	\$ 1,664	\$ 1,664	
Subtotal	\$ 367,184	\$ 367,184	\$ 246,489	\$ 246,489	\$ 304,290
Depreciation	\$ 17,900	\$ 17,900	\$ 18,257	\$ 18,257	
Taxes other than Income	\$ 18,184	\$ 18,184	\$ 12,984	\$ 12,984	
Income Taxes	\$ 800	\$ 14,929	\$ 1,047	\$ 60,521	
Total Deductions	\$ 404,068	\$ 418,197	\$ 278,777	\$ 338,251	\$ 368,615
Net Revenue	\$ (141,637)	\$ 55,078	\$ (11,016)	\$ 143,973	\$ 81,479
<u>Rate Base</u>					
Average Plant	\$ 2,611,284	\$ 2,611,284	\$ 2,626,179	\$ 2,626,179	\$ 2,626,179
Ave. Accumulated Depreciation	\$ 881,510	\$ 881,510	\$ 881,689	\$ 881,689	\$ 881,689
Net Plant	\$ 1,729,773	\$ 1,729,773	\$ 1,744,490	\$ 1,744,490	\$ 1,744,490
<u>Less:</u> Advances			\$ 2,881	\$ 2,881	\$ 2,881
Contributions	\$ 1,463,616	\$ 1,463,616	\$ 1,463,616	\$ 1,463,616	\$ 1,463,616
<u>Plus:</u> Working Cash	\$ 91,796	\$ 91,796	\$ 61,622	\$ 61,622	\$ 76,073
Materials & Supplies					
Rate Base:	\$ 357,954	\$ 357,954	\$ 339,616	\$ 339,616	\$ 354,066
Rate of Return	-39.57%	15.39%	-3.24%	42.39%	23.01%
Rate of Margin					24.00%

**APPENDIX B
NACIMIENTO WATER COMPANY
Schedule No. 1A**

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Tract Nos. 378, 379, 380, and 381 (Oak Shores), Cantinas
Campground and vicinity, San Luis Obispo County.

RATES

Quantity Rates:

All water used per 100 cu.ft. \$ 3.96 (I)

Annual Service Charge:	Per Meter Per Year	(D)
For 5/8 and 3/4-inch meter.....	\$ 314.00 (I)	
For 1-inch meter.....	786.00 (I)	
For 1-1/2-inch meter.....	1,572.00 (I)	
For 2-inch meter.....	2,515.00 (I)	
For 3-inch meter.....	4,716.00 (I)	

The Service Charge is applicable to all metered service.
It is a readiness-to-serve charge to which is added the
charge computed at the Quantity Rate, for water used
during the billing period.

SPECIAL CONDITIONS

1. The annual service charge applied to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, they may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. Meters will be read and quantity charges billed monthly, bimonthly or quarterly in accordance with the utility's established billing periods except the meters may be read and quantity charges billed during the winter season at intervals greater than three months.

(continued)

**APPENDIX B
NACIMIENTO WATER COMPANY
Schedule No. 1A
(continued)**

ANNUAL METERED SERVICE

SPECIAL CONDITIONS

- 2.** The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
- 3.** A late charge will be imposed per Schedule No. LC.
- 4.** In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.

(D)
- 5.** All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(L)

**APPENDIX B
NACIMIENTO WATER COMPANY
Schedule No. 4
PRIVATE FIRE PROTECTION SERVICE**

APPLICABILITY

Applicable to all fire hydrant service rendered from fire hydrants on private property connected to utility owned mains.

TERRITORY

Tract Nos. 378, 379, 380, and 381 (Oak Shores), Cantinas Campground and vicinity, San Luis Obispo County.

RATES

Per Month

For each fire hydrant. . . . \$ 67.49 (I) (D)

SPECIAL CONDITIONS

1. The fire hydrant will be installed by the utility at the cost of the applicant.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1A, Annual Metered Service.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

(D)

5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX B
NACIMIENTO WATER COMPANY****Schedule F****FACILITIES FEES****APPLICABILITY**

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises due to change in use.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES**Initial Fee for each Service Connection:**

For	5/8 x 3/4-inch meter.....	\$ 2,000
For	1-inch meter	5,000
For	1 1/2-inch meter	10,000
For	2-inch meter	16,000
For	3-inch meter	30,000

SPECIAL CONDITIONS

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. These fees are not subject to the Public Utility Commission Reimbursement Fee surcharge in schedule UF.

APPENDIX C
NACIMIENTO WATER COMPANY
COMPARISON OF RATES

METERED SERVICEPer Meter Per Month

	<u>Present Rates</u>	<u>Recommended Rates TY 2003</u>	<u>Percent Increase</u>
For 5/8 x 3/4-inch meters	\$240	\$314	31.0%
For 3/4-inch meters	\$240	\$314	31.0%
For 1-inch meters	\$402	\$786	95.5%
For 1-1/2-inch meters	\$804	\$1,572	95.5%
For 2-inch meters	\$1,278	\$2,515	96.8%
For 3-inch meters	\$2,400	\$4,716	96.5%

Quantity Rates:

All water, per 100 cu.ft.	\$ 1.92	\$ 3.96	106.1%
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Comparison of a monthly typical bill for residential metered customers with a 3/4-inch is shown below at current rates and recommended rates for test year 2003.

<u>Usage 100 cu. ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	20.00	26.20	6.20	31.0%
4	27.68	42.03	14.35	51.8%
7.4 (avg)	34.21	55.48	21.28	62.2%
9	37.28	61.82	24.54	65.8%
15	48.80	85.56	36.76	75.3%

APPENDIX D
NACIMIENTO WATER COMPANY
ADOPTED QUANTITIES
Test Year 2003

Offset Items

1.	Purchased Power	
	Pacific Gas and Electric Company	
	Schedule A-1 Small General Service	
	Total Cost	\$ 21,878
	Total kWh	165,627
	Average Unit Cost (\$/kWh)	\$ 0.1321
2.	Ad Valorem Taxes	\$ 2,321

Service Connections

1.	Meter Size	
	5/8 x 3/4"	118
	3/4"	460
	1"	1
	1 1/2"	3
	Total	<u>582</u>
	<u>Consumption (Ccf)</u>	<u>51,486</u>

ADOPTED TAX CALCULATIONS
Test Year 2003

State Income tax @ 8.84%

Federal Tax Rates:

15% for 1st \$50,000 of Taxable Income
 25% for next \$25,000 of Taxable Income
 34% for next \$25,000 of Taxable Income
 39% for next \$235,000 of Taxable Income

1.	Operating Revenues	\$450,094
2.	Operating Expenses	304,290
3.	Depreciation	18,257
4.	Interest Expense	8,000
5.	Taxes Other Than Income	16,948
6.	Taxable Income for State Tax	102,599
7.	State Income Tax @ 8.84%	9,070
8.	Taxable Income for FIT	93,529
9.	Federal Income Tax	20,050